



# City of South Lake Tahoe

*"making a positive difference now"*

May 23, 2008

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TREASURER  
STATE OF CALIFORNIA

Mr. Robert Grossman  
Group Managing Director  
U. S. Public Finance  
Fitch Ratings  
33 Whitehall Street, 27<sup>th</sup> Fl.  
New York, NY 10004

Ms. Gail Sussman  
Group Managing Director  
Public Finance  
Moody's Investors Service  
250 Greenwich Street  
New York, NY 10007

Mr. William Montrone  
Head  
U.S. Public Finance Dept  
Standard & Poor's  
55 Water Street  
New York, NY 10041

## SUBJECT: Request for Rating Equity in Government Bond Issues

Dear Mr. Grossman, Ms. Sussman and Mr. Montrone:

The City of South Lake Tahoe has joined the coalition of state and local public agencies led by California State Treasurer Bill Lockyer urging you to consider the reform of the municipal bond rating system.

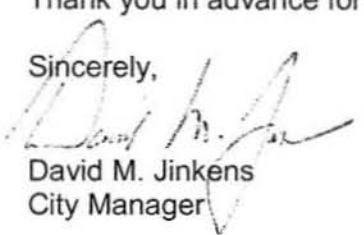
Historically, municipal bonds have exhibited significantly lower levels of default than corporate bonds. However, public agencies typically receive lower bond ratings, and are often required to secure expensive bond insurance to obtain ratings comparable to those of debt issued by private corporations.

The criteria used in rating governmental debt should reflect the actual risk of buying municipal bonds. The current municipal bond rating system undermines the effective functioning of a transparent market. This practice has resulted in substantial and unnecessary costs at the expense of taxpayers across the nation.

We urge each of the rating agencies to reform municipal bond ratings based on the actual risk of default, and to create a unified, global rating approach that treats all bond issuers equally. This approach would better serve both investors and taxpayers. We believe that a fair and comparable rating system for municipal bonds will reduce the cost of capital for public agencies and result in more funds available for crucial governmental services and infrastructure.

Thank you in advance for considering our request.

Sincerely,

  
David M. Jinkens  
City Manager

Enc: City of South Lake Tahoe Resolution No. 2008-31 Supporting the Reform of the Bond Rating System to Eliminate Discrimination Against Municipal Bonds

**CITY OF SOUTH LAKE TAHOE**  
**RESOLUTION NO. 2008-31**

**A RESOLUTION SUPPORTING REFORM OF THE BOND RATING SYSTEM TO  
ELIMINATE DISCRIMINATION AGAINST MUNICIPAL BONDS**

WHEREAS, the recent turmoil in the municipal bond markets has brought into focus the higher standards imposed by the three major bond rating agencies in rating municipal bonds compared to corporate bonds, mortgage-backed securities and other debt instruments; and

WHEREAS, issuers of municipal bonds rarely default on the bonds they sell to finance streets and roads, public buildings, bridges, flood protection and water systems, and other critical infrastructure, yet municipal bond ratings fail to reflect that fundamental fact; and

WHEREAS, the rating agencies even acknowledge this disparity, but they ignore it in their ratings. Standard & Poor's, for example, acknowledges that the historic rate of defaults of A-rated municipal bonds is 0.23 percent, while that of corporate bonds is 2.91 percent - or 13 times greater; and

WHEREAS, despite the relative default rates shown by their own data, the rating agencies continue to discriminate against municipal issuers, requiring public agencies to secure expensive bond insurance in order to secure bond ratings comparable to those of private corporations; and

WHEREAS, the rating agencies base their ratings of corporate bonds on the risk the issuer will default. Their ratings of municipal bonds, in contrast, have little relationship to the risk of default. This difference provides a substantial economic benefit at the expense of taxpayers across the nation; and

WHEREAS, a coalition of state and local public agencies, led by California State Treasurer Bill Lockyer, has called on the three major rating agencies to examine their practices and treat municipal bonds on par with corporate bonds that expose investors to the same level of risk. The Treasurer also testified before the House Financial Services Committee on March 12 about the need for reform.

WHEREAS, the response by the rating agencies to the call for reform has been uneven. Moody's has taken the greatest strides, announcing it will assign a corporate-equivalency rating (what it calls a global scale rating or GSR) alongside the traditional municipal rating to any municipal bond at the issuer's request; and

WHEREAS, the current double-standard by rating agencies: (1) drains billions of dollars from taxpayers' pockets in the form of unfairly high interest rates; (2) forces taxpayers to pay even more money to buy bond insurance - insurance they would not have to purchase if municipal bond ratings accurately reflected the slight risk of default; (3) misleads investors by grossly inflating the risk of buying municipal bonds; and (4) undermines the effective functioning of a transparent market.

RESOLVED, by the City Council of the City of South Lake Tahoe that it calls on the major municipal bond agencies to end the double standard in the treatment of municipal and corporate bonds; to treat taxpayers the same as corporations and rate municipal bonds based on the risk of default; and to create a unified, global rating approach that treats all issuers equally, and better serves taxpayers and investors.

RESOLVED FURTHER, that the City Manager is hereby directed to notify the municipal bond rating agencies by letter of the adoption of this resolution, with a copy to California State Treasurer Bill Lockyer and to register the City as a member of the coalition of public agencies supporting the nationwide effort to reform how bond rating agencies grade state and local bonds.

PASSED AND ADOPTED this 20th day of May 2008, by the following roll call vote:

AYES: Councilmember's WEBER, BIRDWELL, LOVELL & LONG

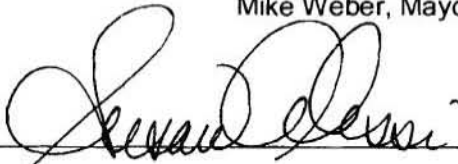
NOES: Councilmember's CRAWFORD

ABSENT: Councilmember's \_\_\_\_\_

ABSTAIN: Councilmember's \_\_\_\_\_



Mike Weber, Mayor



ATTEST: Susan Alessi, City Clerk

